FDIC State Profile

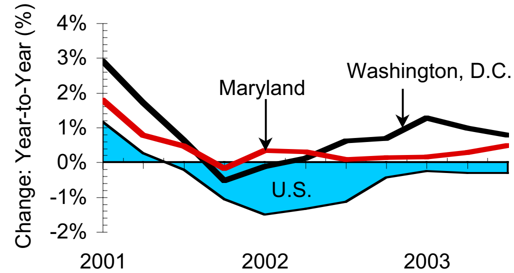
WINTER 2003

Maryland and Washington, D.C.

The Washington, D.C./Maryland economies have been outperforming the nation since the recession and are poised for further improvement.

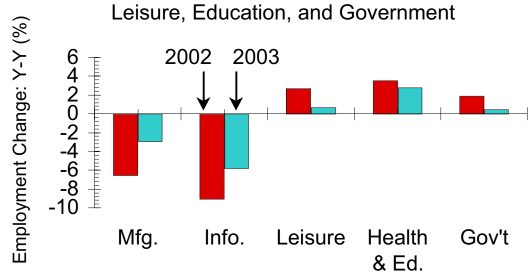
- Employment growth in the ***District of Columbia*** (DC) and ***Maryland*** continued to outperform the nation during and after the recession (see Chart 1). Employment growth exceeded the nation as gains in government, health care, leisure industries, and educational services offset losses in manufacturing and information industries (see Chart 2).
- Increased federal spending for government and government-related jobs, particularly in defense-related industries, has stimulated the area's economy. Many Maryland, ***Baltimore*** area, and DC firms have received new defense contracts reflecting heightened military and security readiness.
- Increased employment gains in health and education reflect nationwide trends of an aging population, placing greater demands on health care.
- Employment in Maryland's information sector, which includes the telecommunications and publishing industries, declined in 2002 and 2003. Losses in these industries reflect layoffs in high-tech industries such as Internet publishing, software development, and communication engineering.
- Similar to the Baltimore and DC areas, economic conditions have been improving in Western Maryland. Both ***Hagerstown*** and ***Cumberland*** have benefited from job gains in health care, financial, and professional and business services.
- Office vacancy rates appeared to peak in the Washington, D.C., metropolitan area in early 2003 (see Chart 3).[1] In third quarter 2003, the office vacancy rate at 12.8 percent was slightly down from one quarter earlier. However, rental rates were down 11 percent from their 2001 peak. In Baltimore, office vacancy rates increased in third quarter 2003 to 16.1 percent. Most of the increase reflects negative absorption trends that continue in the downtown market as office employment declined. By contrast, net absorption has been positive in the suburban market.

Chart 1: Employment Trends Are Stronger in Maryland and Washington, D.C., than the Nation



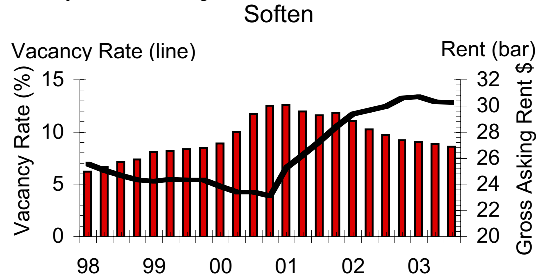
Source: Bureau of Labor Statistics

Chart 2: Job Losses in Manufacturing and Information Services Have Eased, Offset by Gains in Health, Leisure, Education, and Government



Source: Bureau of Labor Statistics. 2003 represents the first nine months of 2003 compared with the first nine months of 2002.

Chart 3: Vacancy Rates in Washington, D.C., May Be Leveling Off, while Rents Continue to Soften



Source: Torto Wheaton Research

[1] The Washington, D.C., metropolitan area includes parts of Maryland and Northern Virginia.

Net interest margins (NIMs) among insured institutions headquartered in Maryland and Washington, D.C. declined during the past year, but stabilized in second quarter 2003.

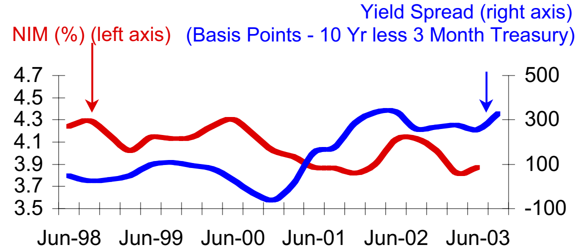
- The median NIM declined in the second half of 2002 and first quarter 2003 as the spread between long- and short-term Treasury rates narrowed and asset yields declined more than funding costs (see Chart 4).
- However, the median NIM stabilized in second quarter 2003 in contrast to a decline among institutions in the rest of the Mid-Atlantic region. The stabilization likely is the result of the area's lower concentration of residential mortgage lenders and moderately higher concentrations in commercial real estate and construction loans. As a result, downward pressure on asset yields from the residential mortgage refinancing wave likely has been more modest than for the rest of the Region.

The percent of institutions with high concentrations of traditionally higher-risk loans among institutions headquartered in Maryland and Washington, D.C. has increased, although the level remains below the nation.

- The percent of insured institutions in Maryland and Washington D.C., reporting concentrations in typically higher-risk loans has increased in recent years and approaches levels reached a decade ago. Through second quarter 2003, 43 percent of Maryland's and Washington, D.C.'s insured institutions reported concentrations of traditionally higher-risk loans above 300 percent of capital, compared with 30 percent five years ago (see Chart 5). The percentage, while increasing, remains below the national percentage of 50 percent.
- Insured institutions headquartered in Maryland and Washington, D.C., reported higher exposure to construction and development (C&D) loans than other Mid-Atlantic states. The median exposure level at 33 percent of capital approximates the national median of 31 percent. Commercial real estate market conditions in the MSAs of Baltimore, Maryland and Washington, D.C. are more favorable than the nation; however, should conditions in these areas' commercial or residential real estate markets deteriorate, C&D loan performance at some institutions may weaken.

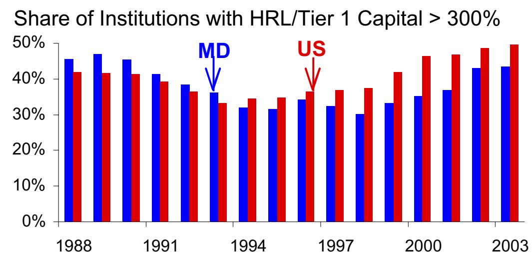
Credit quality weakened moderately among insured institutions headquartered in Maryland and Washington, D.C., but the median past-due rate remains below the nation.

Chart 4: Median NIM Declined with Flattening in the Yield Curve in the First Half of 2003



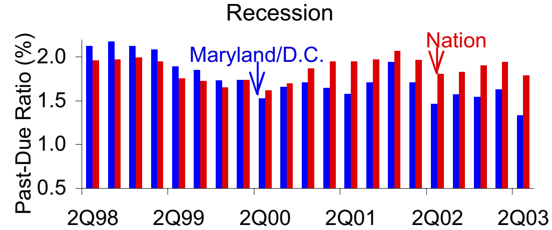
Note: Data for institutions at least three years old. Median data displayed. NIM figures through 2q03. Yield Spread data through September 03. Source: Bank and Thrift Call Reports, Federal Reserve Board.

Chart 5: Exposure to Higher-Risk Loans Has Risen at Insured Institutions in Maryland



Higher-Risk Loans (HRL) is the total of construction & development, commercial real estate, and commercial & industrial loans. Excludes credit card and agricultural banks. Source: Bank and Thrift Call Reports

Chart 6: Past-Due Loan Rates among Maryland/Washington D.C.'s Insured Institutions Have Remained Below the Nation Since the Recession



Includes loans 30 days or more past-due. Excludes agricultural and credit card banks and banks less than three years old.
Source: Bank and Thrift Call Reports.

- The median past-due loan ratio increased in 2001 with the onset of the national economic downturn. However, the past-due loan ratio has since declined and remains below the national measure (see Chart 6). A lower delinquency rate across loan categories is consistent with generally favorable economic trends in Maryland and Washington, D.C. compared with the nation.

Maryland and DC at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	129	135	138	148	151
Total Assets (in thousands)	45,353,860	57,718,435	55,279,507	55,281,089	53,722,271
New Institutions (# < 3 years)	1	6	7	9	5
New Institutions (# < 9 years)	11	14	14	14	9

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.48	10.08	10.24	10.34	10.09

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.33%	1.45%	1.53%	1.45%	1.88%
Past-Due and Nonaccrual > = 5%	9	15	14	12	16
ALLL/Total Loans (median %)	1.07%	1.12%	1.11%	1.06%	1.08%
ALLL/Noncurrent Loans (median multiple)	1.95	1.73	1.96	2.18	1.25
Net Loan Losses/Loans (aggregate)	0.14%	0.23%	0.24%	0.23%	0.25%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	11	22	18	17	12
Percent Unprofitable	8.53%	16.30%	13.04%	11.49%	7.95%
Return on Assets (median %)	0.84	0.75	0.72	0.81	0.87
25th Percentile	0.45	0.45	0.33	0.49	0.46
Net Interest Margin (median %)	3.87%	3.86%	3.96%	4.23%	4.07%
Yield on Earning Assets (median)	5.69%	6.54%	7.66%	7.79%	7.50%
Cost of Funding Earning Assets (median)	2.03%	2.67%	3.85%	3.73%	3.65%
Provisions to Avg. Assets (median)	0.08%	0.07%	0.06%	0.07%	0.05%
Noninterest Income to Avg. Assets (median)	0.62%	0.52%	0.50%	0.51%	0.52%
Overhead to Avg. Assets (median)	2.67%	2.71%	2.78%	2.82%	2.67%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	77.22%	80.85%	83.84%	87.39%	81.69%
Loans to Assets (median %)	64.05%	66.89%	69.37%	70.66%	65.94%
Brokered Deposits (# of institutions)	27	25	22	23	19
Bro. Deps./Assets (median for above inst.)	2.98%	3.11%	3.12%	2.40%	2.33%
Noncore Funding to Assets (median)	17.57%	17.80%	14.70%	14.76%	12.93%
Core Funding to Assets (median)	71.06%	71.49%	72.59%	72.52%	74.80%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	43	43	42	46	48
National	15	15	20	22	22
State Member	18	18	15	14	14
S&L	13	15	17	17	19
Savings Bank	38	42	42	47	46
Mutually Insured	2	2	2	2	2

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Baltimore MD PMSA	70	25,706,652	54.26%	56.68%
Washington DC-MD-VA-WV PMSA	30	11,632,692	23.26%	25.65%
No MSA	21	5,804,126	16.28%	12.80%
Wilmington-Newark DE-MD PMSA	5	860,832	3.88%	1.90%
Hagerstown MD PMSA	2	1,301,630	1.55%	2.87%
Cumberland MD-WV	1	47,928	0.78%	0.11%